Potential Pension Solutions

September 12, 2005

Objectives

- Increase funded ratio of Retirement System
  - Target funded ratio of 80-85% by FY 2008
- Seek City Council direction on a list of potential pension solutions, including, but not limited to, securitizing a minimum of $17.3 million in City revenues during FY 2006
- Report back quarterly

Exclusions

- Elimination of Certain Benefits
- Retiree Healthcare Liability
  - Estimated actuarial liability is $447-672M
  - Currently being paid on a cash basis from City funds
  - Retiree Health payments are no longer funded through Retirement System assets

Accomplishments

- City has already implemented various efforts to improve the System’s funding and operational policies
  - Gleason Settlement
  - Proposition G
  - Proposition H
  - Public Disclosure Ordinance
  - Retiree Health Care Benefits Paid from City Funds
  - Downsizing of Organization
  - Wage Freeze for FY06 and FY07
  - Unclassified Employees Contribution to Retirement System
  - Reduction in City “Pick-Up” to Enhance the Funded Ratio

- MORE Pension Solutions are needed to increase the funded ratio of the Retirement System

Base Case Scenario

- Actuarial analysis shows that by Fiscal Year 2014, with no additional action
  - Funded ratio may improve slightly to 70-72%
  - Employer contribution could increase to between 42% and 52% of payroll (from 27% in FY 06)
  - Total employer contribution could reach $400 million (as compared to $163 million in FY 06)
- Budgetary Analysis shows that by Fiscal Year 2014, with no additional action
  - Employer contribution could represent over 15% of total City operating budget, as compared to over 8% in FY 06

Pension Solutions Scenario

- Pension Solutions Scenario suggests a cash infusion of $600 million over 3 years

Solution ($M)	FY 06	FY 07	FY 08	Total
Securitizations	$100	$0	$0	$100
Land Sales	50	-	50	100
POBs	-	300	100	400
Total	**$150**	**$300**	**$150**	**$600**

Pension Solutions Scenario

- Actuarial analysis shows that by Fiscal Year 2014, with pension solutions as described:
  - Funded ratio may improve to approximately 78%
  - Employer contribution could increase to between 34% and 42% of payroll
  - Total employer contribution may reach $321 million
- Budgetary Analysis shows that by Fiscal Year 2014, with pension solutions as described:
  - Employer contribution could represent over 12% of total City operating budget

Citywide Budgetary Impact

- Securitization of certain General Fund revenue streams result in budget gap
  - To be filled by employee pick-up savings
  - Leverages employee savings, per labor contracts
- Debt service required for Pension Obligation Bonds
  - Additional funding is required in FY 07 and 08
  - May be able to use State return of Property Tax (ERAF III) in FY 07 to backfill
  - In future years, reduced Employer Contributions create savings to pay debt on POBs
- Ultimately, additional savings to the City budget is created which can be utilized for further pension solutions

Citywide Budgetary Impact

ROLLING ($M)	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14
Total Annual Employer Contribution with Solutions (1)	$163.0	$165.3	$164.1	$183.8	$180.8	$194.4	$219.1	$243.1	$264.7
Debt Payments for POBs (2)	-	8.6	24.1	28.3	28.3	28.3	28.3	28.3	28.3
Securitization (debt service) (3)	17.3	17.3	17.3	17.3	17.3	17.3	17.3	17.3	17.3
Employee Pick-Up Savings	(17.3)	(17.3)	(17.3)	(17.3)	(17.3)	(17.3)	(17.3)	(17.3)	(17.3)
Total Budgetary Requirement: Solution Scenario	163.0	173.9	188.2	212.1	209.1	222.7	247.4	271.4	293.0
Total Budgetary Requirement: Base Case Scenario	163.0	165.3	173.3	229.2	243.7	257.6	281.1	303.7	323.9
Annual Net Savings	**-**	**($8.6)**	**($14.9)**	**$17.1**	**$34.6**	**$34.9**	**$33.7**	**$32.3**	**$30.9**

(1) Assuming additional contribution of $150M by FY06, $300M by FY07, and $150M by FY08

(2) Assuming $300M in POBs issuance by FY07 and $100M by FY08

(3) Assuming $17.3M toward debt service under Revenue Securitization for more than 10 years depending on securitization option

Working Group Approach

- Benchmark Against Comparable Municipalities: Average ratios are 83-88%
- Funding Target
  - Achieve 80% to 85% funded ratio by FY 2008
  - Adequately funded from a credit perspective
- Labor Concessions
  - Must be effectively utilized in FY 2006 in order to comply with Local 145 and DCAA 1-year contracts
  - Local 127 contract requires contribution of $600 million by FY 2008
- Planning Horizon: Fulfill requirements of labor union contracts through action in FY 2006

Considerations

- All proposed solutions were subject to certain considerations:
  - Fulfilling Labor Contracts
  - Economic Benefit
  - Impact on City’s Current Credit Situation
  - City Charter Section 77: Sale of land

Potential Pension Solutions

1. General Fund Revenue Securitization

2. Employee Pick-Up Savings

3. City Property: Sale, Lease or Transfer

4. Pension Obligation Bonds: Private Placement/ Public Offering

5. Re-engineering City Services

7. Pension Tax

8. Transfer to CalPERS

Revenue Enhancements

- Potential revenue enhancements to help City achieve structural balance and address priorities more effectively

REVENUE OPTION	ANNUAL REVENUE
Trash Collection Fee	$35.5M
TOT Increase	$30.6M
Property Transfer Tax Increase	$59.6M
Business License Tax Increase	$5.2M

- City Manager will work with Council’s Revenue Committee for discussion

Recommendation

- Set 80-85% funding target to be achieved by Fiscal Year 2008
- Direct City Manager to return with proposals for implementation of solutions
  - Securitizing a stream of revenue to effectively utilize savings from labor contracts
  - Pension Obligation Bonds
  - Other proposals as appropriate
- Direct the City Manager to report back quarterly

Base Case: Rolling Amortization

BASE CASE ROLLING SCENARIO	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14
Normal Cost Rate			13.1%	13.1%	13.1%	13.1%	13.1%	13.1%	13.1%	13.1%	13.1%
Amortization of UAAL			13.7%	15.7%	15.8%	23.6%	24.3%	24.9%	26.6%	28.1%	29.0%
Total Annual Employer Contribution Rate	**13.4%**	**$130M** [1]	**26.9%**	**28.9%**	**29.0%**	**36.8%**	**37.5%**	**38.0%**	**39.8%**	**41.2%**	**42.2%**
Normal Cost ($M)			$75.3	$75.2	$78.6	$82.0	$85.5	$89.1	$92.8	$96.8	$100.9
Amortization Cost of UAAL ($M)			$87.7	$90.1	$94.7	$147.2	$158.2	$168.5	$188.3	$206.9	$223.0
Total Annual Employer Contribution ($M)	**$73.2**	**$130.0**	**$163.0**	**$165.3**	**$173.3**	**$229.2**	**$243.7**	**$257.6**	**$281.1**	**$303.7**	**$323.9**
UAAL ($M)	$1,369	$1,540	$1,546	$1,576	$1,695	$1,806	$2,017	$2,216	$2,388	$2,585	$2,816
Funded Ratio	**65.8%**	**65.6%**	**67.9%**	**69.6%**	**70.0%**	**70.7%**	**70.1%**	**69.9%**	**70.1%**	**70.2%**	**70.1%**
Net Total Operating Budget [2] ($M)	$1,800	$1,901	$2,017	$2,077	$2,140	$2,204	$2,270	$2,338	$2,408	$2,480	$2,555
% of Net Total Operating Budget	**4.1%**	**6.8%**	**8.1%**	**8.0%**	**8.1%**	**10.4%**	**10.7%**	**11.0%**	**11.7%**	**12.2%**	**12.7%**

(1) Fixed amount per Gleason Settlement terms.

(2) Assumes 3% growth rate from FY07 through FY14.

Base Case: Declining Amortization

BASE CASE DECLINING SCENARIO	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14
Normal Cost Rate			13.1%	13.1%	13.1%	13.1%	13.1%	13.1%	13.1%	13.1%	13.1%
Amortization of UAAL			13.7%	15.7%	15.8%	23.6%	25.7%	27.8%	31.6%	35.4%	38.9%
Total Annual Employer Contribution Rate	**13.4%**	**$130M** (1)	**26.9%**	**28.9%**	**29.0%**	**36.8%**	**38.8%**	**40.9%**	**44.7%**	**48.5%**	**52.1%**
Normal Cost ($M)			$75.3	$75.2	$78.6	$82.0	$85.5	$89.1	$92.8	$96.8	$100.9
Amortization Cost of UAAL ($M)			$87.7	$90.1	$94.7	$147.2	$166.8	$188.3	$223.1	$260.6	$298.9
Total Annual Employer Contribution ($M)	**$73.2**	**$130.0**	**$163.0**	**$165.3**	**$173.3**	**$229.2**	**$252.3**	**$277.4**	**$315.9**	**$357.4**	**$399.8**
UAAL ($M)	$1,369	$1,540	$1,546	$1,576	$1,695	$1,806	$2,007	$2,185	$2,317	$2,450	$2,588
Funded Ratio	**65.8%**	**65.6%**	**67.9%**	**69.6%**	**70.0%**	**70.7%**	**70.2%**	**70.3%**	**71.0%**	**71.8%**	**72.5%**
Net Total Operating Budget (2) ($M)	$1,800	$1,901	$2,017	$2,077	$2,140	$2,204	$2,270	$2,338	$2,408	$2,480	$2,555
% of Net Total Operating Budget	**4.1%**	**6.8%**	**8.1%**	**8.0%**	**8.1%**	**10.4%**	**11.1%**	**11.9%**	**13.1%**	**14.4%**	**15.6%**

(1) Fixed amount per Gleason Settlement terms.

(2) Assumes 3% growth rate from FY07 through FY14.

Pension Solutions Scenario: Rolling Amortization

PENSION SOLUTION ROLLING SCENARIO	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14
Normal Cost Rate			13.1%	13.1%	13.1%	13.1%	13.1%	13.1%	13.1%	13.1%	13.1%
Amortization of UAAL			13.7%	15.7%	14.3%	16.3%	14.7%	15.5%	17.9%	19.9%	21.3%
Total Annual Employer Contribution Rate	**13.4%**	**$130M [1]**	**26.9%**	**28.9%**	**27.4%**	**29.5%**	**27.8%**	**28.7%**	**31.0%**	**33.0%**	**34.5%**
Normal Cost ($M)			$75.3	$75.2	$78.6	$82.0	$85.5	$89.1	$92.8	$96.8	$100.9
Amortization Cost of UAAL ($M)			$87.7	$90.1	$85.5	$101.8	$95.3	$105.3	$126.3	$146.3	$163.8
Total Annual Employer Contribution ($M)	**$73.2**	**$130.0**	**$163.0**	**$165.3**	**$164.1**	**$183.8**	**$180.8**	**$194.4**	**$219.1**	**$243.1**	**$264.7**
Additional City Contribution ($M)	-	-	**$150.0**	**$300.0**	**$150.0**	-	-	-	-	-	-
Total Employer and Additional Contribution ($M)	**$73.2**	**$130.0**	**$313.0**	**$465.3**	**$314.1**	**$183.8**	**$180.8**	**$194.4**	**$219.1**	**$243.1**	**$264.7**
UAAL ($M)	$1,369	$1,540	$1,396	$1,090	$1,022	$1,128	$1,353	$1,568	$1,754	$1,966	$2,211
Funded Ratio	**65.8%**	**65.6%**	**71.0%**	**79.0%**	**81.9%**	**81.7%**	**79.9%**	**78.7%**	**78.1%**	**77.4%**	**76.5%**
Net Total Operating Budget [2] ($M)	$1,800	$1,901	$2,017	$2,077	$2,140	$2,204	$2,270	$2,338	$2,408	$2,480	$2,555
% of Net Total Operating Budget	**4.1%**	**6.8%**	**8.1%**	**8.0%**	**7.7%**	**8.3%**	**8.0%**	**8.3%**	**9.1%**	**9.8%**	**10.4%**

(1) Fixed amount per Gleason Settlement terms.

(2) Assumes 3% growth rate from FY07 through FY14.

Pension Solutions Scenario: Declining Amortization

PENSION SOLUTION DECLINING SCENARIO	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14
Normal Cost Rate			13.1%	13.1%	13.1%	13.1%	13.1%	13.1%	13.1%	13.1%	13.1%
Amortization of UAAL			13.7%	15.7%	14.3%	16.3%	15.5%	17.4%	21.2%	25.1%	28.7%
Total Annual Employer Contribution Rate	**13.4%**	**$130M [1]**	**26.9%**	**28.9%**	**27.4%**	**29.5%**	**28.6%**	**30.5%**	**34.3%**	**38.2%**	**41.8%**
Normal Cost ($M)			$75.3	$75.2	$78.6	$82.0	$85.5	$89.1	$92.8	$96.8	$100.9
Amortization Cost of UAAL ($M)			$87.7	$90.1	$85.5	$101.8	$100.5	$117.6	$149.8	$184.6	$220.4
Total Annual Employer Contribution ($M)	**$73.2**	**$130.0**	**$163.0**	**$165.3**	**$164.1**	**$183.8**	**$186.0**	**$206.7**	**$242.6**	**$281.4**	**$321.3**
Additional City Contribution ($M)	-	-	**$150.0**	**$300.0**	**$150.0**	-	-	-	-	-	-
Total Employer and Additional Contribution ($M)	**$73.2**	**$130.0**	**$313.0**	**$465.3**	**$314.1**	**$183.8**	**$186.0**	**$206.7**	**$242.6**	**$281.4**	**$321.3**
UAAL ($M)	$1,369	$1,540	$1,396	$1,090	$1,022	$1,128	$1,347	$1,548	$1,708	$1,875	$2,052
Funded Ratio	**65.8%**	**65.6%**	**71.0%**	**79.0%**	**81.9%**	**81.7%**	**80.0%**	**79.0%**	**78.6%**	**78.4%**	**78.2%**
Net Total Operating Budget [2] ($M)	$1,800	$1,901	$2,017	$2,077	$2,140	$2,204	$2,270	$2,338	$2,408	$2,480	$2,555
% of Net Total Operating Budget	**4.1%**	**6.8%**	**8.1%**	**8.0%**	**7.7%**	**8.3%**	**8.2%**	**8.8%**	**10.1%**	**11.3%**	**12.6%**

[1] Fixed amount per Gleason Settlement terms.

[2] Assumes 3% growth rate from FY07 through FY14.

Citywide Budgetary Impact: Declining Amortization

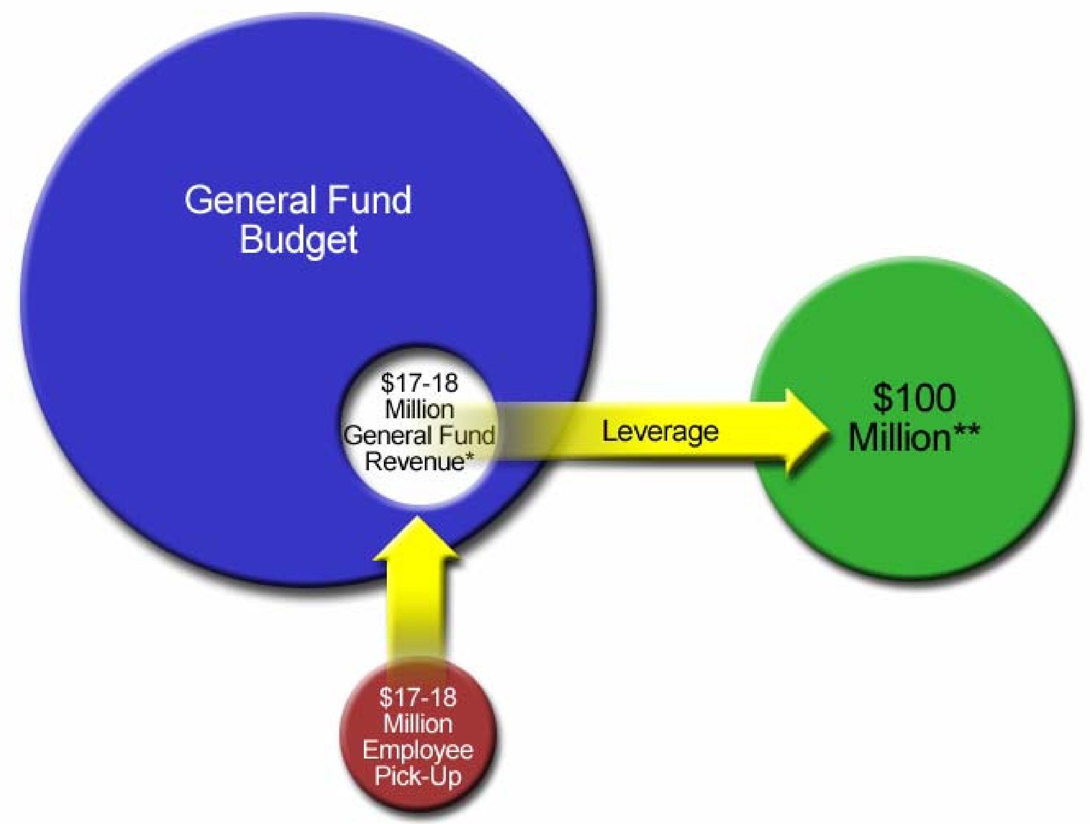
DECLINING ($M)	**FY 06**	**FY 07**	**FY 08**	**FY 09**	**FY 10**	**FY 11**	**FY 12**	**FY 13**	**FY 14**
Total Annual Employer Contribution with Solutions [(1)]	$163.0	$165.3	$164.1	$183.8	$186.0	$206.7	$242.6	$281.4	$321.3
Debt Payments for POBs [(2)]	-	8.6	24.1	28.3	28.3	28.3	28.3	28.3	28.3
Securitization (debt service) [(3)]	17.3	17.3	17.3	17.3	17.3	17.3	17.3	17.3	17.3
Employee Pick-Up Savings	(17.3)	(17.3)	(17.3)	(17.3)	(17.3)	(17.3)	(17.3)	(17.3)	(17.3)
Total Budgetary Requirement: Solution Scenario	163.0	173.9	188.2	212.1	214.3	235.0	270.9	309.7	349.6
Total Budgetary Requirement: Base Case Scenario	163.0	165.3	173.3	229.2	252.3	277.4	315.9	357.4	399.8
Annual Net Savings	**-**	**($8.6)**	**($14.9)**	**$17.1**	**$38.0**	**$42.4**	**$45.0**	**$47.7**	**$50.2**

(1) Assuming additional contribution of $150M by FY06, $300M by FY07, and $150M by FY08

(2) Assuming $300M in POBs issuance by FY07 and $100M by FY08

(3) Assuming $17.3M toward debt service under Revenue Securitization for more than 10 years depending on securitization option

Securitization



* Sale of future general fund revenue stream which could be a combination of general fund revenue categories to meet debt service over a defined term.
** Approximate and proceeds are dependent on the number of years the revenue/s is pledged.